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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 004650

SIPDIS

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SUBJECT: GOJ BEGINS OIL DISCUSSIONS WITH IRAQ

REF: AMMAN 4535

Classified By: Ambassador Edward W. Gnehm, reasons 1.5 (b,d)

1. (c) Summary: A working-level GOJ delegation from the Ministries of Energy and Finance, along with refinery officials, traveled to Baghdad July 24 to open discussions with Iraqi counterparts concerning resumption of crude exports from Iraq to Jordan. The two sides held exploratory discussions on potential quantities, price and transportation methods, but did not strike any deals. They also briefly discussed opportunities for new pipelines to support a rehabilitated Iraqi oil sector. While the GOJ delegation was clearly disappointed by initial soundings from Iraq on the continuation of preferential oil deals, they were practical enough to see the need to begin planning for a new energy reality. End summary.

TALE OF A FATEFUL TRIP

2. (c) A working-level delegation representing Jordan's Energy Ministry (MEMR), Finance Ministry (MINFIN), and the Jordan Petroleum Refinery Company (JPRC) traveled to Baghdad July 24 to open discussions with Iraqi counterparts on the resumption of crude oil imports. The delegation was led by MEMR Secretary General Khaldoun Qteishat and JPRC General Manager Azmi Khreisat. Econoff and Poloff accompanied the six-member delegation, which flew a Royal Wings charter into Baghdad International Airport (BIAP) and was met and escorted throughout the day by CPA Oil Ministry advisors and mil escorts. The trip represented the first direct post-war contact between GOJ line ministries and Iraqi counterparts, and engendered some jealousy from other ministries that did not participate (notably Planning and Industry/Trade).

QUANTITIES

3. (c) The GOJ delegation held a private two-hour meeting with Iraq's Oil Minister and the SOMO chief, after which MEMR SecGen Qteishat back-briefed Econoff on the substance of the talks. Qteishat cautioned that this discussion was only probative, and that the real success was that contact had been made and the two sides had agreed to continue discussions, and to meet again in November/December. Qteishat said the GOJ approached the GOI to begin supplying crude in quantities of 50,000 bpd, to compensate for oil and cash equivalents promised but not delivered by Kuwait and the UAE. He said Iraqi Oil Minister Ghadban reported that all Iraqi crude exports were already contracted to other (unspecified) buyers, but that a small quantity such as that requested by the GOJ could probably be accommodated.

PRICING

4. (c) Qteishat noted with some disappointment that Ghadban was only prepared at the moment to offer exports at market rates - a far cry from the \$600 million-plus subsidy Jordan enjoyed from Iraq under Saddam Hussein. Qteishat said, though, that there should be some room for negotiation on the pricing, and that he hoped to be able to secure more concessionary rates from Iraq after further negotiation.

TRANSPORTATION OPTIONS

5. (c) The two sides also discussed transportation mechanisms. Noting that the preferred method would be overland shipments - both for cost-savings and to relieve pressure on Aqaba port - the GOJ and GOI recognized that such an arrangement would not be possible until the security situation on the Amman-Baghdad highway improved significantly. In addition, Ghadban said Iraq's fleet of crude trucks was dilapidated, and was damaged somewhat in the war. As a result, overhauls and new equipment purchase would be necessary before overland shipments could restart in significant quantity.

PIPE DREAMS AND OTHER THINGS

6. (c) Qteishat said the two sides also briefly discussed reinvigorating plans for oil sector infrastructure programs that were interrupted by the war or by UN sanctions. He noted that MEMR was considering re-issuing an RFP for a pipeline from the border to the Zarga refinery, but said that such a project would now most likely be considered as part of a more ambitious scheme to make Jordan an alternate oil exporting port for Iraq. The more ambitious scheme,

originally researched by the U.N. (according to Qteishat) in the mid-1980's, envisioned running pipelines from Iraqi oil fields to Zarqa and to Aqaba, and building an additional oil refinery in Aqaba to process the crude. An even larger version proposed continuing the Zarqa line to Haifa (note: this is NOT/NOT the pipeline routinely mentioned in the press - that line was built in the 1930's and has long since disappeared. End note). Both sides admitted, though, that any such scheme was years in the future.

17. (c) CPA advisors told Emboffs in a separate meeting that gasoline deliveries to Iraq from Jordan continued and were extremely well-received. They hoped Iraq to be self-sufficient in gasoline production sometime in September, at which time the need for such imports would cease. LPG, though, continued to be a problem, with self-sufficiency not likely until at least the end of the year. They said there would be a continued need to use Aqaba as a through-put point for LPG deliveries, but recognized limitations to Aqaba's off-loading and storage capacity for such product.

COMMENT

18. (c) The Jordanian delegation was (pleasantly) surprised by the hands-off attitude CPA took with respect to these discussions. As one CPA advisor told Emboffs, they see themselves essentially as facilitators to get the Ministries back up and talking to their usual contacts. They professed no wish to participate in any substantive talks, preferring to let the Oil Ministry "cut its own deals." This meeting made clear that, in some instances at least, Iraqis are already back in charge of their own resources and their own decision making on operational issues. The GOJ delegation noted some disappointment that the relative "normalcy" of such a bilateral meeting would go largely unnoticed by the press. They were also disappointed, but not surprised, that the concessional deals of the Saddam years had been laid to rest. The GOJ is now planning for more challenging negotiations with Iraq over oil futures. End comment.

BAGHDAD IMPRESSIONS

19. (c) Cell phones: Econoff's Fastlink cellphone received incoming international calls in some locations, but not in others. Outgoing calls were not possible. In addition, at least some of the fixed-line phones at the Oil Ministry were in active service. CPA reps noted that the Oil Ministry's infrastructure was relatively undamaged by combat operations and spared the degree of looting suffered by some other Ministries.

110. (c) Coordination needs: Despite numerous conversations between Embassy staff, Amman HACC team, and CPA staff, this visit came as something of a surprise to CPA. CPA should be commended for the excellent support provided, both logistical and hospitality, which were positively noted by the GOJ delegation as well. CPA clearly faces a resource crunch, which we believe will only become more acute as the number of visitors increases - as just one example, we witnessed extremely high demand for very limited motorpool resources at the Oil Ministry, which forced some CPA officials and mil liaisons to change their schedules to accommodate us. We greatly appreciate their flexibility.

111. (c) One CPA officer noted that the presence of a full-time travel/visit liaison from State or another agency would greatly assist them in planning and executing visits from USG personnel, third country diplomats, and private sector entities. He said there should be no problem finding physical space for such a coordination office, which he saw as being increasingly necessary as ministries come on line, USG visits increase, and the private sector begins to lose its timidity regarding trips to Iraq. Finally, another senior CPA officer noted a severe shortage of charter flight seats available to outgoing CPA travelers and to incoming USG travelers, as reported reftel. He said CPA would welcome any arrangement to increase the availability of chartered seats for USG travelers.

HALE